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***Address of Research Institution:** Miguel Grau 915, Barranco, Lima
***Name of Researcher** Juana Kuramoto

***Contact Information of Researcher/Research Team members:**
kuramoto@grade.org.pe

***Abstract:** This study explores the possible inducement mechanisms that operate between value chain development and business formalization. This study is framed in the experience of development projects fostering different value chains executed in the Dominican Republic and Peru. Although the evidence is not conclusive, there are some hints that may indicate that eliminating barriers to access markets provides more and better business opportunities to poor and small producers. This has two effects, on the one hand, producers must reach a formalization threshold –usually at a collective level— in order to access the market and, on the other hand, as a result of better business opportunities producers experience growth and are able to cover the formalization costs. The study also finds that these two countries and the development agencies that supported the projects analyzed in this study focus their formalization strategy in improving the business environment and reforms and that their value chain development projects do not necessarily include formalization goals.

***Keywords:** value chain development, business formalization, access the market

Business Regulation Evaluation Group (BREG)

Business Linkages and Formalization in Peru and the Dominican Republic

Juana Kuramoto Huamán

GRADE
Grupo de Análisis del Desarrollo

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Introduction

Several assessments suggest that reducing entry barriers is not enough to formalize an economy. An option to induce formalization may be to stimulate business opportunities for small producers and, thus, modify the business environment and create a rationale of inter-business cooperation for inclusive businesses or pro-poor growth[1]. This prospecting study responds to the interest of the Business Regulation Evaluation Group (BREG)[2] to explore the relationship between inter-business cooperation, formalization and the business environment through experiences in selected Latin American countries, and thereby draw lessons and guidelines for replication.

The relationship between the effects of business linkages and the likelihood of company formalization was considered worth exploring. Some studies, such as those by the World Bank, have found evidence of diminishing informality as companies grow. Consequently, a connection between business linkages, which increases access to markets and spurs growth, and formalization, seems plausible.

However, testing that hypothesis requires empirical evidence that is extremely difficult to obtain because, among other reasons, of poor information about informal businesses while indirect sources (i.e., household surveys) can only provide certain indications. Building a conceptual framework to explain informality requires creating better sources information than are currently available.

This study is an attempt to explore such relationship against the background of business linkages programs and projects encouraged by development agencies, which have made the greatest contribution to disseminate this strategy in the countries where they operate. Its first finding is that these programs and projects do not address formalization issues per se and, consequently, hardly ever specifically collect information on this topic. The second finding is that information in those projects focuses on the actors' businesses and consequently the available information changes depending on the particular project. In addition, little is known about the sustainability of networks, value chains and clusters resulting from those programs and projects.

The third finding is that development agencies typically operate at various fronts in the beneficiary countries. On the one hand, we find direct and specific interventions concerning the issues they wish to promote at microeconomic level and, on the other hand, more general interventions that impact a broader institutional framework. However, interventions in both fronts are generally designed separately and it is not

[1] Pro-poor growth is defined as that which allows poor people's income to grow faster than the income of the rest of the population.

[2] BREG gathers the following entities: Canadian International Development Agency (CIDA), International Development Research Center (IDRC), International Finance Corporation (IFC), Department for International Development (DFID), State Secretariat for Economic Affairs (SECO), Inter-American Development Bank - Multilateral Investment Fund (IDB-FOMIN), Andean Development Corporation (CAF), FUNDES and Economic and Social Research Consortium (CIES).

possible to test the synergies between the two types of initiatives. In addition, the monitoring and evaluation of general interventions' outcomes are scarce.

This study is divided in six sections. In the first section, we present the methodology used in this study and its limits. The second section provides the conceptual framework for this study. We emphasize four lines of analysis: business linkages and their impact on growth, business linkages and the role of development agencies, informality and its various faces, and indications about the relationship between business linkages and formalization. The third section provides the overall context for this study. It describes the business climate prevailing in Peru and the Dominican Republic, the two countries under review. In the fourth section, we present the linkage programs and projects examined in both countries. The fifth section provides information about the execution and outcomes of such programs and projects. Finally, the last section provides some reflections based on our findings.

1 Methodology and Limits

1.1 Methodology

A qualitative methodology was used in this study. On the one hand, we reviewed the information about the linkage programs and projects in Peru and the Dominican Republic. Our literature review included the logical frameworks for such programs and projects, evaluation reports, statistics on their results and statistical data for both countries, in particular business plans, macroeconomic data, and data about micro, small and medium enterprises (MSMEs) and informality.

On the other, we interviewed the representatives of some development agencies, government entities and NGOs and the officials charged with implementing the programs and projects under review.

1.2 Limits

This study focuses on the linkage programs and projects carried out in Peru and the Dominican Republic by three cooperation agencies, namely USAID, IDB and the Swiss Development Cooperation Agency (SDCA).

The original proposal for this study included a review of the programs and projects focusing on two specific economic subsectors, namely the horticultural subsector and the textile subsector. Although this did not pose any significant obstacles as most of the programs and projects under review include initiatives in and beneficiaries of these subsectors, much valuable program and project information would have been lost if we had restricted our focus to only the horticultural sector.

In addition, it was expected that those programs and projects would include a larger number of initiatives to also encompass the textile subsector, taking into account the latter's importance in both countries' manufacturing industry. However, the programs and projects under review did not focus their activities and initiatives only on the textile subsector. Quite the contrary, even when reviewing government initiatives at a general level, this subsector was not particularly focused.

For this reason, this study looked at general evidence for the programs and projects under study that mainly more broadly target the agricultural industry.

A couple of projects were included also that focus on the textile subsector. Unfortunately, this was a particularly successful project in Peru, from the stand point of its execution and results. In the Dominican Republic, the only similar project supported entrepreneurship among a specific group of business owners and, consequently, its results cannot be generalized.

2 Conceptual Framework

Two conceptual frameworks were used in this study. The first one focuses on business cooperation and the second on business formalization.

2.1 Business Linkages and the Likelihood of Growth

Linkages among businesses have been examined principally from two standpoints: the industrial organization configurations, such as productive agglomerations (*clusters*), and production or value chains. Both approaches focus on how to improve collective efficiencies to, in turn, increase competiveness.

Clusters have been credited with creating external economies, furthering joint initiatives by the involved actors and fostering innovation links that increase efficiencies, elevate competiveness and lead to economic growth (Schmitz, 1999; Humphrey and Schmitz, 2000; and Porter, 1990). Public policies derived from this approach in developing countries have largely aimed at encouraging association to create external economies. However, when Porter (1990) proposed his cluster diagnosis tool (the Porter Diamond) he pointed that for cluster development and improvement a four pronged approach was required: 1) improving factors; 2) encouraging the development of related industries; 3) improving conditions for demand, in particular domestic demand; and 4) improving the cluster's competiveness.

In other words, it is not enough to promote clustering but rather appropriate conditions are needed to encourage innovation and improve the business climate. Among others, Altenburg and Meyer-Stammer (1999) point out that, to promote clusters, an appropriate policy portfolio must combine general measures to support companies, mainly small and medium enterprises (SMEs), combined with policies specifically aimed at encouraging clusters.

On the value chain side, a hypothesis holds that for manufacturing of specific goods several various agents must link up along a chain comprised at the beginning of the producers of the inputs and services needed to produce a final good or service, followed by the producer of the good or service itself and the marketing agents that will take the good or service to the end consumer, who is the final link of the chain.

Kaplinsky (2000) underscores that actors along value chains organize in different ways to remove bottlenecks and improve efficiencies. Such organizational set-ups require some actors to adopt a leading role in the chain's governance or organization. Depending on the type of industry, governance leaders may be the good's producers themselves (for instance, if the good requires meeting a number of technical specifications) or the marketing agents (for example, if marketing channels are the main factor in ensuring the good reaches the end consumers).

As in the case of productive *clusters*, public policies tend to focus on encouraging associations of goods or services' producers to build supply, in most cases for foreign markets. However, governance issues are neglected and, at best, left in the hands of the buying companies operating in those chains.

2.2 Business Linkages and the Role of Development Agencies

In the last 20 years, consensus has emerged that one of the main reasons for persisting poverty is poor access to markets among the disadvantaged. In rural areas poor infrastructure and weak institutional set ups combine with the lack of capacities and social capital to create further obstacles to market growth.

Development agencies have identified value chain development as a strong tool to promote inclusive or pro-poor economic growth allowing to bring disadvantaged populations closer to markets, including strengthening the production chains of goods made by rural and small scale urban producers and manufacturers.

In general, interventions adopt a comprehensive approach based on a diagnosis of the chain's potential to benefit small scale producers and increase their market competitiveness. These interventions include a strong training and technical assistance component so producers can create the association-building capabilities they need to reach a scale of production suitable to meet the needs of their respective markets, and to ensure their products reach the expected quality standards. Finally, more and more often, interventions include a major marketing component to ensure products reach their markets.

The most successful interventions were those based on a demand-driven approach. However, oftentimes this term has been misused. Riordan (2007) mentions also that many times potential niche markets are identified where demand exceeds the potential supply. Other times, no such demand exists and, as a consequence, efforts are made "to sell what is produced, rather than to produce what may be sold" (Riordan, 2007). To underscore this point, Riordan mentions that "real demand is about a buyer with a name and address". In other words, demand is just not a set of potential business opportunities, but rather effective contracts that must be closed.

In addition, the technological characteristics of the value chain seem to be a major determinant in the success of the type of chains encouraged by development agencies. On the one hand, it is clear that the producers' capacities must be adapted to the chain's technical specifications. Highly sophisticated chains may flounder because they require putting in place capabilities far above those found among producers, which may not be possible to acquire through technical assistance or training alone. Also, the chain's sophistication may require investments that can largely exceed the producers' possibilities. For instance, in rural Peru the trout value chain has been widely encouraged. However, trout exporting requires meeting very strict technical and working capital requirements. Many producers have been pushed out of this industry when their quality fell significantly below the requirements of very dynamic export and even local markets. Other times, they are pushed to sell their products in local markets at strongly discounted prices (Kuramoto, 2008).

At any rate, examples of value chains sponsored by development agencies are numerous and scope a wide variety of goods, from agricultural produce to light manufacturing goods. Several program assessments underscore their positive impact to increase producers' revenues. However, those evaluations focus on the management side and did not use methodologies to isolate the effect of other factors on modifying the variables under study[3].

Based on the existing experience of value chain promotion, several cooperation agencies have proposed an approach called "Markets for the Poor" or M4P[4]. This ambitious approach seeks to create significant changes in the institutional environment to implement chain promotion projects.

2.3 The Many Faces of Informality

Informality is a complex issue that scopes various faces of an economic activity, ranging from business registration, to tax, labor and other regulatory compliance. In addition, degrees of informality fluctuate. Some productive units may be entirely informal and outside the regulatory environment, as are moslty subsistence-level activities, while even some registered businesses may be only partly in compliance with regulatory requirements.

The Donor Committee for Enterprise Development (DCED) has evolved a conceptual framework to capture the differences between agents and the various factors that may have an impact on their decisions to become formal or remain informal (Zinnes 2009).

[3] Several available impact assessment methodologies allow discriminating the effects of several different factors other than the intervention that may result in changes of the results variables considered of importance for such programs. However, the high cost of impact assessments has led to many programs being implemented without considering such evaluations. As a consequence, it is not clear whether higher revenues are strictly the consequence of the program or a combination of factors.

[4] The M4P approach identifies two groups of factors in market operations, i.e., tangible and intangible. The first group is comprised of factors like availability of and access to infrastructure and public goods, among others. Intangible factors include formal and informal rules that shape the way in which economic transactions take place. This approach brings to light some factors that are usually found in non-performing markets.

First, this approach distinguishes four types of informal agents: 1) subsistence businesses, which are non-official businesses that may in turn be classified as 2) non-registered and 3) partially-registered businesses, and 4) formal companies that perform some informal activities. Table 1 shows these four types of agents and their characteristics. The degree of informality is much higher in the less dynamic i.e. poorest, sectors of the economy where it is almost impossible to talk about "businesses", but rather about personal ventures with a very limited resource endowment and able to earn only subsistence, mostly temporary incomes. In more dynamic sectors, the degree of informality may vary with tax evasion as the main issue to be addressed.

Table 1
Degrees of Business Informality

Attributes	Less dynamic		More dynamic	
	Totally informal		Partially informal	
	Informal Economy			Formal Economy
	Subsistence Businesses	Non-official Businesses		
		Mostly not registered	Mostly registered	Official Businesses
Degree of informality	100%	High share of non-declared sales and non-registered workers	Some undeclared sales and some non-registered workers	
Type of activity	Street vendors, micro-businesses, peasant farmers	Small industrialists, service providers, distributors, contractors	Small and medium scale industrialists, service providers, software companies	
Technology	Labor intensive	Mostly labor intensive	Knowledge and capital intensive	
Owner profile	Poor, low education, low skills	Poor and non-poor, educated, highly skilled	Non-poor, highly educated, sophisticated skills	
Market	Low entry barriers, high competition, very homogeneous products	Low entry barriers, high competition, incipient product differentiation	High entry barriers, niche markets or established products	
Financial needs	Working capital	Working capital, little investment, supplier credit	Starting and working capital investment, letters of credit, supplier credit	
Other needs	Personal insurance, social coverage	Personal insurance and possibly business insurance	Personal and business insurance, business development service	

Source: Zinnes (2009): 8.

Two approaches have been adopted to address informality. First, a cost-benefit approach which assumes the decision to remain informal requires an evaluation of the associated costs and benefits. The costs of informality include licensing, taxes, health and pension fund contributions, among others, all of which increase production costs. The benefits include access to public services, credit, security, justice and markets, and others. Galal (2005) mentions that for a company to formalize, it must earn returns after paying all its obligations, similar to those it may earn by remaining informal.

The cost-benefit approach assumes economic agents can avail themselves with all the information they require and may reap all the benefits from existing economic institutions. Still, agents may choose to remain informal for three reasons: 1) high entry, operation and exit costs in several industries; 2) the expectation of earning only low returns from formalization, given the existing business regime and climate; and 3) informal entrepreneurs may evolve extra legal practices to protect their property rights, enter into informal contracts and avoid paying penalties (Galal, 2005).

On the other hand, the empowerment approach posits some agents, particularly the poorest have no access to certain benefits linked to justice, assurance of their ownership rights and enforcement of labor and business rights. Exclusion of those economic agents from such public goods hinders their possibility to grow and, consequently, makes them avoid paying the cost of formality. High prevalence of informal activity in less developed countries reflects that exclusion and creates perverse incentives that in turn lead to poor overall resources allocation. Loayza et al. (2005) hold this puts countries on a suboptimal growth path because it prevents appropriate allocation of resources by markets and the adequate replacement of public goods. An economy with a significant informal sector will suffer from poor quality jobs; low levels of trust among its citizens, the state and the investors; a narrow tax base; scant information about its enterprises which impedes designin appropriate policies to grow its business sector; poor financial intermediation; scant and poor quality business services and a small range of welfare service to protect its population (Development Alternatives, 2005).

Both the cost-benefit and the empowerment approaches are complementary with each other to the extent widely different types of informal agents respond to several motivations and are variously impacted by the above described cost and benefits.

Table 2 shows the various reforms and their relevance for the different types of informal agents. As may be seen there, although ensuring ownership rights is important for all agents, for the poorest it is also fundamental to obtain ownership title to the land where they live. Likewise, cheaper business start up procedures is not particularly relevant for very poor people, while this is an important requirement for non-official companies. In addition, tax exemptions may be very important to persuade a subsistence worker to start a business, whereas from a broader standpoint, it may seem more convenient not to grant tax exemptions.

Table 2
Reforms to promote formalization by type of agents

Informality area	Type of informality				
	Subsistence Workers	Payroll/sub-contract Workers	Weak Non-official	Dynamic Non-official	Formal Companies
Assets	Land titling		Cadastre updating, property registration, collateral registration		
	Establishment of collateral registration				
Financial	Including microfinance in banking regulations			Better access to bank financing	
Judicial	Standardize customary arrangements		Improve efficiency of and trust in business courts (and other official mechanisms for conflict resolution)		
	Effective and accessible conflict resolution systems, legal literacy campaigns		Effective and accessible conflict resolution systems, legal literacy campaigns, oversight of standard enforcement of customary arrangements		
Product			Licenses and permits, increasing awareness of certification		
Energy	Block rates and penalties, privatization of production				
Labor	Natural catastrophe insurance, basic health services	More part-time work flexibility	Lower deductions		
Starting a business	Free personal identity registration linked to social services				
			Streamline central and local government business registration; reform other business start up procedures; create business development and market information services		
Tax	Exemptions or fixed reference tax rates	Lower tax rates in exemption, technical and IT system capacity building			
					Stronger auditing standards
Regulatory			Penalties and reparations		
				Standards by specific sector and business size	

Source: Zinnes (2009): 35-36.

Although several authors including Zinnes (2009) hold technical reforms inspired only by the cost-benefit approach are not very likely to succeed unless empowerment issues are also tackled, they also recognize empowerment approach derived policies are significantly broader and may scope from providing free identity documents all the way to unemployment insurance and health care services. At any rate, policy makers should decide on the right level of access to public services for the entire population, depending on the country's level of development (Zinnes 2009).

In fact, most countries that introduce reforms to fight informality chose a cost-benefit approach. Moreover, preference is given to strategies to reduce costs, including lower rates and tariffs, friendlier permitting and others. The outcome of these reforms has been limited. For instance, Alcázar, Andrade and Jaramillo (2010), based on follow-up of microbusinesses in the old downtown quarter of Lima, found that lack of operation permits did not significantly impact the bottom line of the companies reviewed in their study. Economic result variables were classified as relating to revenues, sales, profits, profits per worker and intermediate result variables included number of workers, access to credit, and investment in infrastructure and equipment. The authors concluded a better understanding is needed of the nature of the demand for business formalization.

2.4 Business Linkages and Formalization

As mentioned in section 2.2, development agencies have sponsored various business linkage programs in an effort to promote inclusive or pro-poor growth. In addition, many of these agencies have also been active in promoting reforms to tackle informality.

Although development agencies have explicitly declared reform initiatives to encourage formality must be linked to the objectives of alleviating poverty and spurring economic growth, the complex interactions between these two issues prevent any direct relationships. As a consequence, both types of initiatives have been promoted separately. For instance, although linkage programs aim at supporting entrepreneurship in the poorest segments of the population and adopt an exclusively microeconomic focus, business climate reforms adopt a microeconomic focus and seem directed at luring large investments.

In addition, the Donors Committee for Enterprise Development has explicitly stated through the Swedish International Development Agency (SIDA) that “frameworks and strategies to tackle the informal economy should be design without hurting the potential of the informal economy to create employment and contribute to economic growth” (Zinnes, 2009). In other words, these agencies privilege the objective of eradicating and alleviating poverty, more than the eradication of informality.

In view of the above, little progress has been made concerning the relationship between the effects of business linkages and informality. Evidence concerning both types of initiatives does not reveal any conclusive relationship.

Although it is true a valid hypothesis has been put forward concerning the contribution of economic linkages to growth and increased efficiencies and there is evidence that informality diminishes as production units gain size (Perry et al., 2007) it has not been possible to produce evidence of a direct transmission channel.

The above is mainly due to the lack of information about the programs promoted by both types of initiatives. On the side of linkage programs, there is not enough evidence on their impact on the growth of the companies they connect. In most cases no impact assessments are available that may allow to properly isolate the impact of such programs on the growth of the involved companies. Moreover, these programs' beneficiaries are not precisely companies but rather subsistence producers who carry out their production activities in a completely informal environment. In addition, success cases are not necessarily sustainable over time. In fact, ex-post assessments of some programs show that once the program ends and support is removed, very few of such enterprises survive.

Nor is there evidence about the impact of programs aimed at improving the business climate. Impact assessments are not available either and, for those programs that include monitoring and evaluation systems, results are not necessarily in line with expectations, as demonstrated by Alcázar, Andrade and Jaramillo. (2010).

At any rate, both types of programs should be designed taking into account their ulterior evaluation. This implies the need for them to start with a base line study and to incorporate ex-post evaluations using experimental or quasi-experimental assessment methodologies.

3 Reference Contexts: Peru and the Dominican Republic

3.1 Competitiveness and Development Stages

The World Economic Forum's Global Competitiveness Index (GCI) is a useful tool when comparing countries for their economic structures and results.

The World Economic Forum holds competitiveness is the result of the existence of a set institutions, policies and factors that determine a country's level of productivity. It identifies 12 determinants or pillars of competitiveness for which it has designed certain indicators that allow comparisons among countries for which it gathers data. Table 3 shows the 12 pillars grouped in three categories corresponding to the economies' development stages: factor-driven economies, efficiency-driven economies, and innovation-driven economies.

Table 3
Pillars of competitiveness and economies' development stages

Pillars of competitiveness	Economies' development stage
Basic requirements ▪ Institutions ▪ Infrastructure ▪ Macroeconomic environment ▪ Health and primary education	**Key to factor-driven economies**
Efficiency factors ▪ Higher education and training ▪ Efficient goods markets ▪ Efficient labor markets ▪ Financial market development ▪ Technological readiness and market size	**Key to efficiency-driven economies**
Sophistication and innovation factors ▪ Business sophistication ▪ Innovation	**Key to innovation-driven economies**

Source: World Economic Forum (2010).

This classification of economies allows identifying the importance of such pillars in each development stage. Thus, in the first development stage, economic growth is mainly driven by factor availability, principally labor and natural resources. As a result, the pillars exerting the greatest impact are those that lay the foundations to allocate and utilize such factors, namely effective and efficient institutions, infrastructure, a stable macro-economic environment and sound health and education provision.

In the second stage of development, economies start to gain efficiency and, consequently, the most important pillars are those that create the foundation for increasing productivity. These pillars are higher education and training, efficient goods markets, efficient labor markets, a growing financial market, and technological readiness and market size.

In the third stage of development, economies base their growth principally in productivity increases, with innovation as the driving force behind those increases. The most important pillars in this stage are innovation and business sophistication.

Two criteria help us classify economies by stage of development. The first is per capita GDP, a result variable. It is assumed that in factor-driven economies, per capita GDP is below US$ 2,000. When this variable reaches between US$ 2,000 and US$ 3,000, economies are in transition between stages 1 and 2. Efficiency-driven or stage 2 economies exhibit per capita GDP between US$ 3,000 and US$ 9,000. When they move from stage 2 to stage 3, their per capita GDP ranges between US$ 9,000 and US$ 17,000. Finally, innovation-driven or stage 3 economies have a per capita GDP above US$ 17,000.

The second criterion is the share of mining resources in their exports, as a clear indicator of the importance of natural resources in economic activity. When that share exceeds 70%, the economy is assumed to be still in its first stage of development.

In accordance with these criteria, Peru and the Dominican Republic are in a stage of development where they are increasing their efficiencies, since both countries' per capita GDP is above US$ 4,000 (Table 4). However, the economic structures of both countries differ significantly. First, the two countries' size and resource endowment is substantially different. Peru stretches over more than 1 million square kilometers, providing an extremely varied resource endowment that is home to a population of 29 million people. The Dominican Republic's territory spans 48.7 thousand square kilometers on a tropical island inhabited by 10 million people.

Second, the sizes of their economic indicators are substantially different. World Bank data reveals Peru's GDP in 2009 reached 130 billion dollars, while the Dominic Republic's was 47 billion dollars. Table 4 shows the same difference in orders of magnitude of exports. Peru's sales abroad are five times larger than the Dominican Republic's.

Third, and much more interesting, is the difference in the structure of exports. Peruvian exports are mostly (77%) traditional and among them, almost two thirds are mineral exports, while Dominican exports are mostly (88%) non-traditional. This reflects, on one side, the differences in resource endowment, but also divergences in the development strategies followed by both countries. The Dominican Republic has adopted a strategy to increase its exports by creating free zones where many manufacturing companies are devoted to textile, footwear, tobacco, electronics and other industrial activities.

Table 4
Key macro-economic data. Peru and the Dominican Republic

	Peru	Dominican Republic
Per capita GDP	US$ 4,160	US$ 4,530
GDP, 2009	US$ 130,324.7	US$ 46, 788.3
Economic Growth rate 2009-2010*	6.7%	6.0%
Exports FOB (2009)	US$ 26,885	US$ 5,463
Imports FOB (2009)	US$ 21,011	US$ 12,283
Mineral exports (2010)	61%	0.07%
Traditional exports (2010)	77%	6%
Non-traditional exports (2010)	23%	88%

Source: CEPAL (2011) and World Economic Forum (2010).
* 2009-2010 growth rate estimated by CEPAL (2011).

Doing Business 2005 and 2011

The World Bank's *Doing Business* ranking identifies the obstacles faced by an entrepreneur who wants to start and operate a business. These obstacles are grouped in nine steps: 1) getting a business license, 2) getting building permits, 3) registering properties, 4) getting credit, 5) protecting investments, 6) paying taxes, 7) trading across borders, 8) enforcing contracts, and 9) closing a business.

The *Doing Business* ranking has been prepared since 2004 based on a review of regulations and experts' perceptions on each category. The opinion of over 8 200 experts is requested, including lawyers, consultants, accountants, customs forwarders and government officials. The collected data is standardized using a questionnaire based on the paperwork required by a limited liability company of a specified size to open, operate and close in various countries. The collected data is tested to ensure it is statistically robust.

Despite the above, the data shows certain limitations. First, the data is collected in the largest city of participating countries and may not be representative of regulations in force in other cities. Second, the information is gathered for a limited liability company hiring between 5 and 50 workers, and a paid in capital about 10 times the respective country's per capita GDP. Third, transactions by this company are particular to the specific selected scenario and may not be representative of all the activities in which companies engage. Fourth, the time indicators are subjective and reflect the judgment of the interviewed experts. Finally, the company is assumed to have perfect knowledge of the regulations it must comply with and it does not spend any additional time to meet those regulations (Doing Business, 2011).

Table 5 shows the respective indicators for Peru and the Dominican Republic. Peru is better placed (position 36) than the Dominican Republic (position 91). This is mainly accounted for by the sub-indexes for getting a business license (position 54 compared to position 137), registering property (position 24 compared to position 114), getting credit (position 15 compared to position 72), and protecting investments (position 20 compared to position 59).

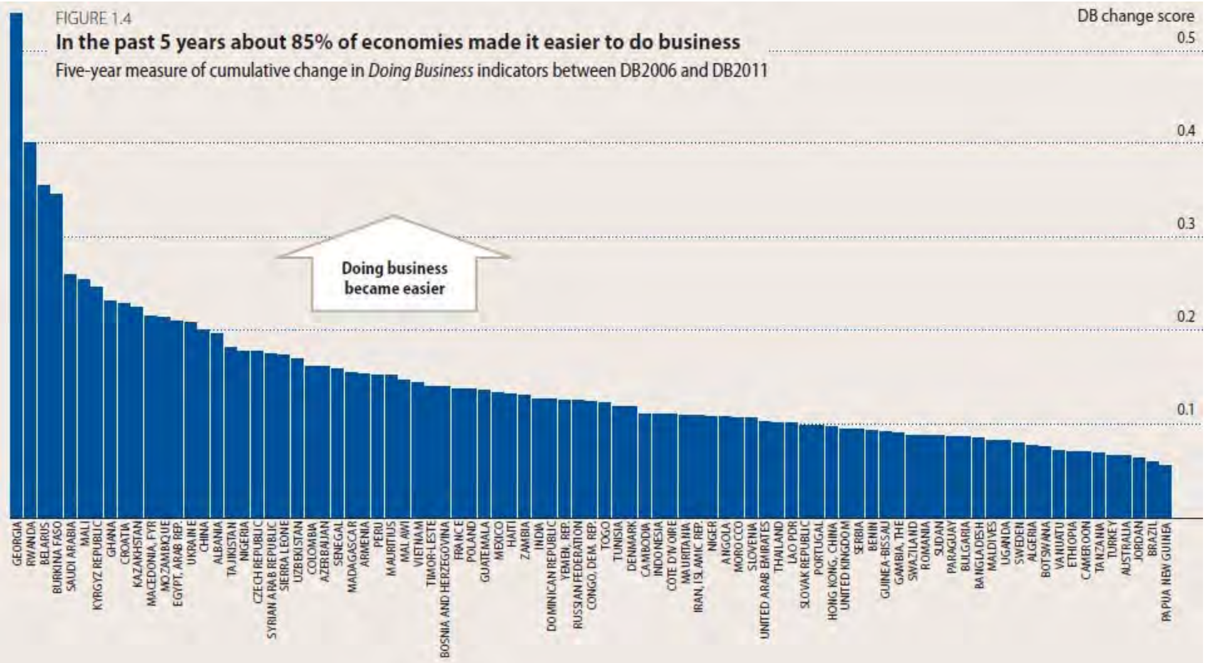
For instance, it is easier to start a company in Peru because fewer procedures are required, the cost of doing so is lower and no minimum capital is needed. Only four procedures are require property, compared to seven in the Dominican Republic. In addition, they take much less time (seven compared to 60 days) and cost relatively less.

Table 5

DOING BUSINESS 2011 (183 countries)	PERU	DOMINICAN REPUBLIC
Business friendly environment	**36**	**91**
Starting a business (ranking)	**54**	**137**
Procedures (number)	6	8
Time (days)	27	19
Cost (% of per capita income)	13.6	19.2
Minimum capital (% of per capita income)	0	62.6
Construction permits (ranking)	**97**	**89**
Procedures (number)	19	17
Time (days)	188	214
Cost (% of per capita income)	128.1	126.7
Property registration (ranking)	**24**	**114**
Procedures (number)	4	7
Time (days)	7	60
Cost (% of property value)	3.3	3.7
Getting a loan (ranking)	**15**	**72**
Index of legal rights strength (0-10)	7	3
Index of credit information availability (0-10)	6	6
Coverage of public credit registration (% adults)	25.5	28.5
Coverage of private credit bureaus (% adults)	33.3	47.3
Investor protection (ranking)	**20**	**59**
Transparency index (0-10)	8	5
Directors liability index (0-10)	5	4
Investor trial friendliness index (0-10)	7	8
Investor protection strength index (0-10)	6.7	5.7
Paying taxes (ranking)	**86**	**76**
Taxes pay (number per year)	9	9
Time (days per year)	380	324
Total tax rate (% of earnings)	40.2	40.7
Cross-border trade (ranking)	53	40
Export documents (number)	6	6
Time to export (days)	12	9
Cost of exporting (US$ per container)	860	916
Import documents(number)	8	7
Time to import (days)	17	10
Cost of importing (US$ per container)	880	1150
Contract enforcement (ranking)	**110**	**84**
Procedures (number)	41	34
Time (days)	428	460
Cost (% of demand)	35.7	40.9
Closing a business (ranking)	**96**	**145**
Time (years)	3.1	3.5
Cost (% of goods)	7	38
Recovery rate (cents per dollar)	27.2	9.1

Doing Business has prepared an indicator on the cumulative improvement of regulatory changes experienced in 2006 – 2011 in each country.[5] As shown in Graphic 1, most countries have experienced positive changes in their respective business environments. Peru improved more than the Dominican Republic.

Graphic 1
Cumulative improvements in the regulatory environment to start a business



Source: Doing Business (2010)

3.2 Informality

Latin America and the Caribbean are among the regions where informality is more widespread. Zinnes (2009) estimates that in 1999-2003 the share of the informal economy over GDP fluctuated between 29% and 38%, whereas in East Asia it was between 22% and 28%, while in Asia Pacific the range scoped between 18.5% and 20%. In addition, Vuletin (2008) estimates that average informality in Latin America and the Caribbean reached 38% at the beginning of the 2000s. Contrary to Zinnes's estimates, regional informality levels fluctuated from 15.9% in Bahamas to 68.2% in Paraguay. Peru and the Dominican Republic rank at intermediate levels of 38.1% and 44.0%, respectively.

We review below some of the peculiarities of informality among MSMEs in Peru and the Dominican Republic.

[5] The cumulative improvement indicator covers all indicators in the nine categories of the Doing Business ranking. First, absolute changes for each of the indicators are computed. For instance, if starting a business took 200 days in a given country and after their reforms only 50 days are needed, a 150 possitive difference is allocated. If starting a business takes longer, the balance is negative. Second, the differences among individual indicators are standarized on a 0 to 1 scale. Changes in the nine areas are computed by figuring out the averages of individual changes.

a) Peru

Measuring informality among micro, small and medium enterprises is a difficult task because of the nature of the tax itself and the lack of direct sources of data for such measurements. In addition, Peruvian regulations governing these companies have been repeatedly modified. Legislative Decree 1086 defines micro enterprises as having a maximum of 10 workers and annual sales under 150 tax units (UIT) while small companies were those with at most 100 workers and sales below 1700 tax units (Table 6). Most related government programs target these two types of companies.

Table 6
Micro, small and medium enterprises in Peru and the Dominican Republic

Type of company	Peru	Dominican Republic
Microbusiness	▪ 10 workers maximum ▪ 150 tax units maximum annual sales (US$ 166,406)	▪ Between 1 and 10 workers
Small company	▪ Between 11 and 100 workers ▪ 1 700 tax units maximum annual sales (US$ 1,886,938)	▪ Between 11 and 50 workers
Medium company	▪ Between 101 and 250 workers ▪ 1 701 and 11 650 tax units maximum annual sales	▪ Between 51 and 150 workers

Due to the lack of adequate data and the high levels of informality among smaller companies, the number of MSMEs in Peru must be determined indirectly using data from the National Households Surveys (ENAHO)[6]. Jaramillo and Díaz (2009) discuss two methodologies. First, calculating the economically active population in the micro and small companies and dividing it by the average number of workers in each type of company. Alternatively, they identify the number of business entrepreneurs, including independent workers who hire non-remunerated family workers. The classification as micro and small businesses under both methods is based on the number of workers because the National Household Surveys do not provide sales data.

These authors adopted the second methodology to estimate the number of MSMEs because the first requires making certain assumptions about the distribution of the sample companies which are not satisfied,[7] and using different types of direct and indirect sources of information. On the one hand, formal companies are those registered with SUNAT, the tax administration. Then, to figure out the approximate

6 An alternative source of information about companies is the tax administration's (SUNAT) taxpayer roll. However, this registry includes only formal companies (i.e., registered enterprises) and may underestimate the actual number of MSI businesses operating in Peru.

7 Jaramillo and Díaz (2009) hold a normal sample distribution is needed for the average number of workers to be a representative average.

number of informal companies, the method would require computing the number of economic agents and independent workers that employ non-remunerated family workers, based on ENAHO data.

Using this methodology, Jaramillo y Díaz (2009) estimated the number of microbusinesses in 2007 at 3,167,547 and 64,607 small companies. In this estimate, the authors relied on the definition provided by the Ministry of Labor and Employment Promotion (MTPE) classifying micro companies as those with 2 to 9 workers, while small enterprises are those with up to 49 workers.

When scrutinizing levels of informality among companies, and if only companies registered with SUNAT (2006 figures) are considered formal and estimates based on the household surveys are subtracted, informal microenterprises reach 73.3%, while 32.8% are informal small enterprises.

Companies may remain informal for several different reasons. Robles et al. (2001) have constructed a legality index based on four criteria: 1) the company has obtained the tax payer number (RUC), 2) it pays taxes, 3) it has an operations permit, and 4) it pays municipal taxes. The authors determine the legality index rises as companies gain in size. This finding is consistent with evidence worldwide and may reveal that larger companies are better able to finance the cost of formalization (Perry et al., 2007).

Yamada (2009) explores the “escape” hypothesis, (Perry et al. 2007) according to which most self employed individuals in the informal sector voluntarily choose such condition. His findings reveal that in 2003-2006, the percentage of family economic agents who became informal microbusiness owners because they could not get a job dropped from 40.1% to 28.2%. On the contrary, economic agents seeking higher incomes or independent work grew from 47.2% to 52.1% (Jaramillo and Díaz 2009). In other words, as Peru’s economy improved, self-employed workers became increasingly entrepreneurs, rather than agents unable to get a wage-earning job.

As concerns MSMEs’ productivity, evidence reveals smaller companies are less productive. Estimates by Chacaltana (2008) reveal microenterprise workers contribute about US$ 250 a month to average product value, while workers in a small company contribute 2.6 times more; medium-size enterprise workers contribute 8.4 times more, and large company workers make a 16 times contribution (Jaramillo and Díaz, 2009).

Jaramillo and Díaz (2009) also report small and medium enterprises hire approximately 60% of the working economic age population, and 64% when medium companies are included.

b) Dominican Republic

Guzmán and Ortiz (2007) have prepared estimates about MSMEs and their characteristics in the Dominican Republic. Information sources included the halfyearly National Labor Survey and two other surveys prepared by FONDOMICRO,[8] one for the countries' two largest cities (Santo Domingo and Santiago de los Caballeros), and the other one, a national survey.

Estimates for 2004 revealed 183,882 companies in the Dominican Republic, of which 165,120 (89.74%) were micro-companies; 13,744 (7.47%) were small companies and 5,118 (2.78%) were medium-size companies (Guzmán and Ortiz, 2007).

A World Bank study included an informality module in the 2006 National Labor Survey that revealed between 50% and 65% of workers were employed in the informal economy. Likewise, it reported informal workers work less hours per week and earn lower incomes than formal workers. The monthly average income of informal workers reaches RD$ 8,000 (about US$ 250), while formal workers earn RD$ 14,000 (about US$ 438). Between 35% and 45% of formal workers earn an average income below the minimum salary, while only 15% to 20% of formal workers earn wages below the minimum salary.

As concerns the reasons for workers to remain informal, over half of workers working on their own and who operate in the informal economy pointed to voluntary factors, such as the likelihood of earning larger incomes, greater flexibility and independence, and habit.[9] (World Bank 2007).

Employment figures reveal 60.2% of workers are employed in micro enterprises, 9.2% in small enterprises, and 30% in intermediate and large enterprises. In addition, wages paid by small and medium enterprises are higher than salaries at micro companies.

This information does not allow establishing a clear relationship between a higher capital-labor ratio and company size, although it does show increasing use of installed capacity. This may point to a more intense use of capital among larger than smaller companies.

In addition, the study also reveals an increase in company size. It mentions that 1) the present average size of companies is larger than their original average size, 2) the present average size of all the companies is larger than for smaller companies, and 3) the initial average size of newer companies is larger than among older companies.

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[8] Fondomicro is non-profit organization conducting research on micro and small companies and providing financial services and products to those business categories.

[9] The study uses 3 definitions of informality. The first defines informal workers as those who lack a working contract, do not enjoy labor benefits, or the companies they work for are not authorized. It also includes non-salary earning workers or household workers and company heads or self employed workers who work without an operations permit. The second definition classifies as informal all those workers who are not deducted a contribution to social security funds and those business heads and the self employed workers who do not contribute to a pension fund. The third definition regards as informal those wage earners of businesses with less than five workers, company heads and self employed workers engaged in agricultural occupations, business operators and agents, handicraftsmen and operators, traders, sales persons and unskilled workers, as well as non-wage earning workers and household help.

4 Business linkage programs in Peru and the Dominican Republic

Both Peru and the Dominican Republic sponsor business linkage strategies supported by cooperation agencies and their respective governments. In Peru, debate on this type of strategy started at the end of the 1990s. Michael Porter's published work and subsequent consultancies worldwide spread his ideas in Peru. Subsequently, the Ministry of Production retained Monitor Consultancy, a Porter company, to identify Peru's clustering potential. Starting in 2000, a number of initiatives were launched to encourage clusters and/or value chains in Peru. Several of these initiatives adopted a limited view of clustering because they focus on the producers' affiliation.

Business linkages promotion is more recent in the Dominican Republic. Towards the end of 2000s, the National Competitiveness Council (CNC) started sponsoring a clustering strategy to enhance productivity and competitiveness, in particular in the agricultural and tourism industries. This strategy has been designed as a complement to the free zones introduced in the Dominican Republic several years ago.

Several development agencies are supporting both countries to build stronger business linkages, in particular, USAID and the Inter-American Development Bank (IDB). In addition, in Peru, the Swiss Cooperation Agency is providing significant support to these efforts, although, budget cuts have led to a gradual retrenchment of Swiss cooperation in Peru.

Table 7
Business linkage programs supported by selected development agencies

	USAID	IDB	Swiss Cooperation	Pro-Industry
Peru	Poverty Relief Program (PRA)	Articulando MyPerú Project Developing Business Networks in Gamarra and Cuzco *Clusters*	(APOMIPE)	
Dominican Republic	Rural Economic Diversification Project	Industrial Innovation Program		(ASOMIMETRO)

The above projects were chosen because, in the first place, they were supported by USAID and IDB. These development agencies have funded similar projects in both countries, in particular for agricultural products. Second, textile industry projects were included to meet research project specifications. However, research about the textile industry in both countries is extremely limited, despite the past and present significance of this industry. Third, we included an SDCA-financed project that was not included in the original research proposal. This project was included because it has helped to identify a legal way to engage in commercial deals that otherwise would have remained informal.

4.1 Business linkages programs in Peru

Table 7 shows the business linkage programs reviewed in Peru, including the Poverty Relief Program (PRA), Articulando MyPerú (Business Linkages) Project, Support to Micro and Small Businesses (APOMIPE) and Development of Business Networks in Gamarra and Cuzco Clusters.

a) Poverty Relief Program (PRA)

A project implemented in Peru with USAID funding through Chemonics, an international consultancy. It started in 1998 through an agreement between USAID and the Peruvian National Federation of Private Business Organizations (CONFIEP).

The project sponsors productive chains in rural areas so producers can link up in various cities around Peru and abroad. It covers 10 economic corridors in the departments of Ancash, Ayacucho, Cuzco, Huancavelica, Junin (Huancayo), Huánuco, Cajamarca (Jaen), Piura, Ucayali (Pucallpa) and San Martin (Tarapoto). These departments are among Peru's poorest but the selected corridors show a high growth potential.[10] An economic services center was established in each of those economic corridors to provide non financial support services to producers and companies.

PRA's intervention strategy is to link small scale rural and/or urban producers in those economic corridors with companies that may acquire their products and sell them in local and foreign dynamic markets. This would allow local producers to reach markets and rely on dynamic demand to improve their revenues and reduce poverty.

Businesses promoted in the various productive chains sponsored by the PRA project must meet the following criteria:

- Signing a results-driven agreement including a budget for the intervention, and accomplishing sales, job creation and investment goals.
- The business entrepreneur must be knowledgeable with private sector working practices and must provide a certain number of contacts and clients.
- Performance is rewarded through incentives.
- Supportive businesses must reach sales five times the size of the project's investment.
- A client-driven approach and formal business plans are required.

PRA has encouraged businesses for over 400 products, with artichoke, cacao, coffee, bean, trout and avocado among the most successful. In its first stage from 2000 to 2008, the project created linkages between 42,500 small scale producers

[10] The Huancavelica corridor shows the least growth potential. However, it was included because of an explicit request from a mining company that committed to fund part of the program's implementation cost.

and 220 large companies in several productive chains, resulting in sales of US$ 307.3 million, exports reaching US$ 146.8 million and creation of 82,000 new jobs.

PRA recently moved into a second stage that will be implemented from 2010 to 2014. The new stage's budget reaches US$ 20 million and its main goals include creating goods and services' sales worth US$ 90 million and 27,000 new jobs. In addition, the project expects to leverage US$ 15 million funding: 8 million from private sector contributions, 3 million from government and 4 million from public-private partnerships.

Some PRA success stories

Trout

By linking Piscifactorías Los Andes with potential customers, PRA accomplished sales worth US$ 5.8 million and deals for 680 MT of trout products. Business linkages were built between Piscifactorías and California Gardens (Huancayo), Sumac Challwa, Acoria, Palca and Ocopa (Huancavelica) and River Fish, JM Hermanos and Los Angeles (Puno).

PRA identifies small scale trout farmers who will supply Piscifactorías. It also facilitates consultancies and technical assistance. Piscifactorías transfers trout farming technology to meet locally technical standards for exports to its main markets in the US and Europe.

Artichoke

Agromantaro, TALSA, Nutreína, Virú, Danper and Alsur exporting companies have linked up with small scale artichoke growers in Mantaro Valley, Ancash, Ayacucho and Cuzco. A total 740 hectares of land have been planted, for sales worth US$ 4.5 million. Products are now exported to US and Europe.

Exporting companies provide growers with cuttings and scions and assure produce purchases. PRA identifies buyers, facilitates deals between growers and buying companies, and provides field technical assistance.

Externalities created by these businesses are already visible in Mantaro Valley. New businesses are emerging, including input suppliers (fertilizers, pesticides and tools), transportation from and to remote growing areas, glass jar suppliers, and field supervising services, among others.

b) Articulando MyPerú (Business Linkages) Project

Articulando MyPerú is implemented by a consortium comprised of COPEME, CONFIEP, Sase, Minka and Intercooperation. Its US$ 4.6 million budget is financed by the Inter-American Development Bank's Multilateral Investment Fund.

Articulando MyPerú seeks to promote horizontal linkages among producers, as well as vertical linkages between large companies sourcing from one or several smaller suppliers.

The project operates on a competitive funding basis. Recently it provided funding to 10 sub-projects that sponsor value chains for specialty coffees, cocoa, yellow corn, *tara*, dairy products, table grapes, asparagus and archeological tourism in various areas around Peru. Table 8 details the projects, their objectives, beneficiaries and some information about levels of formalization.

Table 8
Articulando MyPerú Projects and Beneficiaries' Description

Project	Objectives	Beneficiaries and details
(CEDEPAS Norte)	Creating network of small scale growers of hard yellow corn to increase their productive and business competitiveness in Jequetepeque Valley	12 tax registered grower networks in Central de Productores de Maíz del Valle de Jequetepeque (CEPROVAJE),.
(PROASSA)	Expanding specialty coffee supply	62 associations, 54 of which in CECANOR, and 8 in CEPROCE. Both are tax registered networks
Fundación Wiese	Moche route archaeological tourism	114 microbusinesses organized in 15 business association networks. No information available on their formalization status
PRISMA Well Being Association	Strengthening of and linkages among *Tara* growers, to reach competitive quality and access export markets. The project operates in Andahuaylas and Chincheros provinces in Apurimac	451 producers organized in 17 Associations and Committees; 14 organizations are formal, but only 6 have registered operative steering boards
Industrias Mayo	Revaluing Peruvian criollo cocoa by strengthening association capacities and facilitating access to special Markets	118 cocoa growers organized in 4 associations, mainly APROCAP, APANAC, APASH and PARMASH. APROCAP is a registered taxpayer
Red de Organizaciones Productivas Agropecuarias (REOPA)	Building of frozen asparagus processing facility for small scale producers gathered in REOPA for export to European and US markets	170 members organized in 11 associations. All associates are members of REOPA, a registered organization
Caritas Peru	Dairy farming productive chain development in Cuzco region	14 cheese makers and 130 milk dairy farmers. Milk producers are informal but cheese makers are organized in the Cuzco Imperio Valley Dairy Producers Association, a registered organization .
Consorcio Agroexportador S.A.C.	Increasing competitiveness and sustainability of the export market table grape value chain through enhanced grower technical	24 growers, 7 are organized in the Arequipa Grape Growers' Association and 17 are organized in the Agro Misti La Joya Food Growers' Association. Both are tax and public registered organizations.

Project	Objectives	Beneficiaries and details
	capabilities and certifying fields in Arequipa region	
Productos del País S.A.	Kuskalla Tarnchiqwan: Strengthening the *tara* value chain in Ayacucho region	30 growers' associations. Some formal.
Piscifactorías Los Andes	Including competitiveness and businesses linkages of small scale trout farmers in Puno	21 farmers, 57% formal; 12 growers are now registered tax payers as a result of this project

As may be gathered from the above data, Articulando MyPerú-funded projects incorporate a large number of producers organized in representative associations or institutions that engage in business transactions with customers and undertake joint initiatives for the networks' benefit.

Remarkably, out of 10 funded projects, 5 are being directly sponsored by private companies with a view at creating vertical business linkages with the small producers. Articulando MyPerú's executive director revealed these are the most effective projects because the sponsoring companies are clear about their goals to create business linkages and are in direct contact with the markets where they operate.

Some NGO-sponsored projects have established partnerships with private organizations. This type of cooperation combines the capacities of those types of organizations. On the one hand, the NGOs' experience in interventions of this nature, and, on the other, the market experience and efficiency of private partners.

Although neither regional nor local governments are directly involved in these projects, they have acted as facilitating agents.

In six of these projects, linkages were created to meet international market demand. These are extremely important because most local MSMEs focus on domestic markets and low revenue markets. The most significant benefit derives from the externalities created by targeting international markets, including higher quality standard, best practices, targeting high income niche markets and others.

c) Support to Micro and Small Enterprises (APOMIPE)

The APOMIPE project in Peru is funded by the Swiss Technical Cooperation assistance agency (SDCA) and is jointly implemented by Swiss Intercooperation Foundation and Peruvian NGOs MINKA (La Libertad), CEDEPAS Norte (Cajamarca) and the Centro Bartolomé de las Casas (Cuzco). After its launch in 2004, it operated on a US$ 2.7 million budget in its first 2005-2008 stage.

APOMIPE seeks to fight poverty and social inequality by encouraging greater organization among small companies and sponsoring local development initiatives. To this end, it encourages business networks along the guinea pig, dairy, flowers and handicrafts value chains, among others. These chains were chosen based on their income generation and internal growth potential, the possibilities for tapping new destination markets and their potwential to create stronger networks and an enabling institutional environment.

APOMIPE enforces a six-step methodology for creating business networks. They include the following: 1) territory, chain and business analysis, 2) participant promotion and screening, 3) trust building and improved planning, 4) trust consolidation through pilot projects, 5) design and implementation of strategic projects, and 6) business management walkthrough.

Some of the main outcomes reported from the programs' first stage include higher family revenues and job creation. In 2005 and 2006, activities sponsored by the project increased family revenues by 151%. Gross annual household incomes rose from S/. 2,957 to S/. 7,426. Project-supported activities increased available jobs from 1,280 to 2,022 (SDCA 2009).

The project linked 350 production units in 33 networks comprising nine production chains: guinea pig, dairy and avocado farms in Cajamarca; handicrafts, dairy products, kiwicha and flowers in Cuzco; and handicrafts, dairy products, mango, poultry, and wood working in La Libertad. These networks have resulted in vertical linkages with 180 clients or suppliers (SDCA, 2009).

Finally, the project has devised a new type of agreement, the so-called consortiums with shared bookkeeping whereby farmers report their sales to the SUNAT tax administration but do not need to establish a separate company, which would cancel some of their present tax benefits.

d) Creating business networks in Gamarra and Cuzco clusters

Creating Business Networks in Gamarra and Cuzco Clusters project is funded by IDB and implemented by Intercooperation, a Swiss foundation. This project started in 2004 through a non-reimbursable technical assistance agreement worth US$ 1.6 million. The first phase of this project was executed in 2004-2007.

The project's first phase was not particularly successful because of coordination issues with the Center for the Promotion of Small and Microbusinesses (PROMPYME), which signed the loan agreement with IDB. PROMPYME was eventually incorporated into the Mi Empresa program executed by the Ministry of Labor and Employment Promotion. This change led to a delay in project activities and, finally, the first stage was concluded hastily, without completing all its activities or accomplishing the proposed goals.

The project created 21 business networks (14 in the textile industry, in Gamarra, and seven in the tourism industry, in Cuzco), involving 103 micro and small enterprises[11].

[11] The project aimed at setting up 160 enterprises.

Now in its second phase, this project is promoting business networks in the apparel industry (in Gamarra) and in the Cuzco tourist circuit. Its apparel component has sponsored 13 business networks.

The project's proposed goals to increase sales and revenues and open access to markets were not accomplished because of the difficulties described above.

The second phase is now underway with funding worth US$ 400,000. The project proposes to create both horizontal and vertical business linkages and open access to new markets.

4.2 Business Linkage Programs in the Dominican Republic

a) Rural Economic Diversification Project

The Rural Economic Diversification Project is implemented in Dominican Republic by Abt, an international consultant, with funding provided by USAID. The project started in 2008 and will conclude in 2011. Funding for the project totals US$ 13,335,718.

Its objective is to support small agricultural and forestry producers to diversify their output so they can improve their competitiveness in global markets and profit from opportunities created by the Free Trade Agreement signed between the United States and the Dominican Republic (DR-CAFTA).

To promote the association between agricultural and forestry producers, the project has been structured based on the cluster concept. In this project, a cluster is "a critical mass of agricultural producers, processors, buyers and suppliers of inputs and services who provide local leadership to promote production in marketing of specific agricultural products or groups of similar products that share a high growth potential based on their high quality and competitive market prices. These agents operate in geographical proximity and follow environmentally-friendly production and processing practices". (Abt Associates Inc., 2011).

Table 9 shows the project has sponsored 17 clusters in various areas of the Dominican Republic. Several clusters have already started selling their products in international markets, in particular the United States and Europe, while others are targeting such markets. These companies link up with export markets through a buying company.[12]

Table 9
Project-supported Clusters and Clients

Cluster and province	Product	Client and targeted market
Avocado; San Cristóbal	Avocado	National supermarkets and wholesalers
Horticulture; Constanza, La Vega	Oriental vegetables	National supermarkets and wholesellers
Zafarraya Cooperative; Moca, Espaillat	Sweet bell peppers and oriental vegetables	Miami, USA
Banana; Mao, Valverde	Banana	
Manioc and cassava; Monción,	Cassava bread	Local market

[12] This business linkage strategy is similar to the PRA project, in Peru.

Cluster and province	Product	Client and targeted market
Santiago Rodríguez		
Mango; Baní, Peravia	Mango	
Pinapple; Cevicos, Santiago Rodríguez	Pinapple	
Greenhouses; Jarabacoa, La Vega	Sweet bell peppers and oriental vegetables	
Coffee; Jarabacoa, La Vega	Coffee	Local market
Wood and furniture; Santiago	Furniture	
MOVICAC, and NACAS in Baní, Peravia and San Cristóbal	Coffee	Japan and Europe
FEDEGANO; Santiago Rodríguez	Milk and dairy products	
FECADESJ, San Juan; San Juan	Coffee and oriental vegetables	Miami (oriental vegetables)
Vallejuelo; San Juan	Watermelon	USA
CONOCADO in Haina, San Cristóbal	Cacao	
FUNDELOSA in Altamira, Puerto Plata	Cacao	
Red Guaconejo; Nagua, María Trinidad Sánchez	Cacao	USA

Source: Abt Associates Inc. (2011)

In its first stage in 2009-2010, this project increased exports by 13.40%; it directly benefited 6,500 rural households and trained 4,317 MSMEs in good crop management and production practices, and 558 MSMEs in natural resources handling. It has helped 375 producers get international certifications, including Global Cap, Organic Farming, Fair Trade, and Good Agricultural and Manufacturing Practices.

The project also facilitated access to productive infrastructure. To do so, it provided technical assistance to prepare proposals totaling over US$ 10 million that were submitted to non-US donors.

b) Industrial Innovation Program

The Industrial Innovation Program is funded by the Inter-American Development Bank's FOMIN Fund and executed by the Dominican Republic's Industrialists Association (AI-RD). The Dominican National Competitiveness Council is charged with the program's financial management. The program's estimated cost is US$ 3.4 million.

The purpose of the project is to increase competitiveness in the Dominican industrial exporting cluster. It seeks to develop and implement a business model that relies on rapid response and flexibility, in the cacao, cacao byproducts, beauty and plastics (packaging and molds) industries.

It is comprised of three components. The first aims at developing a strategy for these clusters to promote the companies' integration and linkages. It provides financing for business coordination and awareness raising, and to identify and prepare strategic plans. Its second component supports companies' training and technical assistance to implement a model that will allow greater responsiveness, rapidity and flexibility. The third component is concerned with knowledge dissemination and replication.

c) La Romana Textile Micro and Medium Enterprises' Association Project (ASOMIMETRO)

ASOMIMETRO project has received financing from the National Council for the Promotion of Micro, Small and Medium Enterprises (PROMIPYME, is the Spanish acronym).

ASOMIMETRO gathers 17 textile and apparel companies from La Romana that were established after large "maquilas" companies left the free zone when the Multifiber Agreement expired. These companies focused on two types of apparel, namely underwear and jean-making. In both cases, they targeted the local market, especially at the low-income end. The arrival of Chinese and neighboring countries' apparel reduced these companies' competitive edge and led them to get together in an effort to reduce costs.

PROMIPYME has helped them to buy inputs jointly and improve their production facilities. They were given some space within PROMIPYME's production facilities.

The purpose of this association is to improve their competitiveness through their association and target more dynamic markets where they can sell their "Dominican Beauty" (lingerie) products.

5 Linkage program execution and results

Based on our interviews, principally with cooperation agency and implementing unit representatives, and our review of the documentation for the selected projects, we examined first how the projects had been designed and executed, and secondly the role the selected projects played in formalization and, finally, the results of these programs regarding formalization.

5.1 Project design and execution in both countries

a) Project context

The projects funded by cooperation agencies are generally framed by the strategy agreed with the hosting country.

- **Peru**

As regards IDB, a document was prepared including the bank's strategy for Peru[13]. IDB mentions that for the 2007-2011 period, it will support the country to 1) strengthen international mainstreaming and competitiveness, 2) promote social development and inclusion, and 3) deepen the reform of the state and governance.

To foster greater competitiveness and productive diversification, IDB will support investments in infrastructure, provide direct funding in private industry and support various productive sectors, in particular those relating to extractive industries[14].

Its support to enhance competitiveness includes efforts underway in two fronts. On the one hand, it funds the Science and Technology Program executed through the Fund for Innovation, Science and Technology (FINCYT, in Spanish). This program principally finances business innovation to enhance business competitiveness. In addition, since 2008 IDB has financed the Articulando MyPerú Program to promote businesses linkages.

USAID's economic growth program for Peru includes expanding the benefits of growth to the poorest populations and assisting in better connecting the Andean and Amazon regions with global markets. This task is being pursued through the PRA Program, which promotes productive chains[15].

In its 2002-2006 country strategy, IDB proposed to help in increasing economic productivity and competitiveness, improve social policies' efficiency and create a modern, decentralized and efficient state.

USAID has supported efforts to improve countries' business climate in three areas: paperwork reduction, access to credit, and business competitiveness. It has also supported policies to remove trade barriers, facilitate investment in micro, small and medium-size enterprises, and increase the latter's participation in the formal economy and export markets.

PRA has created approximately US$ 307 million worth of additional sales and 82,000 new jobs.

Finally, SDCA's country strategy for 2009 to 2011 has as its main challenge to make economic growth reach the most disadvantaged populations, through better re-distribution and government policies with a social drive.

In the area of economic growth with a focus on disadvantaged populations, SDCA has promoted increasing competitiveness by establishing business networks comprised of small companies; providing access to national and international markets, through efforts to meet international standards and accomplishing greater diversification; providing professional training in rural areas; improving framework

[13] See IDB (2006). "Bank Strategy for Peru 2007-2011". See http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1378627

[14] In the Estrategia País 2002-2006, IDB was planning to increase economy's productivity and competitiveness, improve social politics' efficiency, and create a modern State, decentralized and efficient.

[15] See http://www.usaid.gov/pe/downloads/economic-growth-spanish.pdf

economic conditions and the business environment; and finally opening access to financial resources and fostering the tourism industry.

Because Peru is now a middle income country, the Swiss government decided that starting in 2011 SDCA programs will be transferred to the Swiss Confederation's State Secretariat for Economic Affairs (SECO). This agency will put in place a topic and geographic area-based cooperation strategy identified together with the Government of Peru.

- **Dominican Republic**

IDB's strategy for the Dominican Republic[16] mentions the convenience of adopting counter-cyclical policies to meet the impact of the 2008 crisis. In addition, it proposes to improve infrastructure services, enhance national competitiveness and help in recovering the path to economic growth. Finally, in view of weaker tourism and textile "maquila" industries, the Bank proposes to support developing these industries without providing tax exemptions.

In the agricultural industry, IDB will target its interventions to improve productivity. It will focus its efforts in supporting small scale producers to adopt new technologies and improve food health and harmlessness services.

In addition, IDB is also assisting the Dominican Republic to enhance its business climate. It supports CNC to introduce certain reforms and is cooperating with the Santo Domingo Chamber of Commerce to introduce fully digital one-stop company registration. Moreover, it is supporting the National Intellectual Property Office (ONAPI) to streamline trademark registration.

IDB matches its programs and recommendations to national priorities and consequently, supports the objectives outlined in the Dominican Republic's National Development Strategy.

USAID is supporting the Dominican Republic "to improve governance and fight corruption; implement the Free Trade Agreement with Central America and Dominican Republic (DR-CAFTA) and improve small business and rural community capacities to benefit from trade and job-creation opportunities, while protecting the country's natural resources and biodiversity"[17].

In what concerns economic growth, USAID is helping the country to improve its ability to compete in international markets and increase economic opportunities for Dominicans. To achieve this goal, the agency provides technical assistance for policy reform, sponsors stronger commercial capabilities, and assists in rural electrification efforts and initiatives to enhance regional competitiveness.

USAID supports the Dominican Republic to tap the opportunities created by DR-CAFTA. To this end, it is assisting agricultural producers to create industry clusters.

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16 Ver: BID (2009). "República Dominicana: Estrategia de País del BID 2010-2013". See http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35404423

17 See http://www.usaid.gov/dr/background_es.htm

b) Objectives of the projects

¡Error! No se encuentra el origen de la referencia. shows that all the projects under review have as their main objective to improve productivity and competitiveness among beneficiary producers, as expected from business linkage projects. Although some of these programs are not very explicit in this regard, most target low income producers. PRA is among the few that explicitly mentions as its objective to contribute to the mitigation and reduction of poverty. Other projects, as APOMIPE, mention a "higher objective", which includes that of alleviating poverty and social inequality.

Table 10
Central and specific objectives of projects under review

Project	Central objective	Specific objectives
PRA	Contribute to alleviate and reduce poverty in the selected economic corridors through the generation of new jobs and sustained incomes and by promoting a private investment-friendly business climate.	▪ Sustainably increase sales of goods and services of economic corridors to create job opportunities and enhance the capacity of the poor to improve their incomes. ▪ Increase income among PRA beneficiary households. ▪ Obtain a financial leverage from public, private, and civil society organization sectors. ▪ Improve conditions for private covers and investment by reducing transaction costs related to poor infrastructure, legal and administrative barriers and lack of proper conditions for *cluster* development.
Articulando MyPerú	Contributing to the competitive growth of small and medium enterprises in Peru by fostering *clusters*.	▪ Fostering a greater competitiveness among SMEs by creating cross-business linkages and sponsoring cooperation between companies and support organizations. ▪ Promote a public-private cooperation in the field of production development policies.
Developing Business Networks in the Gamarra and Cuzco *Clusters*	Implementing business association networks within those *clusters* to create dynamic collective efficiencies and optimize company market linkages.	▪ Promote business association networks. ▪ Facilitate access to productive and organizational technologies. ▪ Facilitate market access.
APOMIPE	Improve competitiveness of small scale producers connected in business networks within the intervention chains and territories.	
Rural Economic Diversification Project	Support small scale agricultural and forestry producers to diversify production and thus improve competitiveness in global markets; profit from opportunities created by the Free Trade Agreement between	▪ Develop, strengthen and ensure sustainability of farming and forestry *clusters* integrating small producers in rural Dominican Republic*.

Project	Central objective	Specific objectives
	the United States and the Dominican Republic (DR-CAFTA).	
Industrial Innovation Program	Encourage and contribute to improving competitiveness of the Dominican manufacturing exporting industry, by encouraging productive associations (*clusters*). The purpose of this program is to develop and implement a business model paved on rapid and flexible response in the selected industries.	
ASOMIMETRO		▪ Encouraging development of micro-textile business in eastern Dominican Republic. ▪ Disseminate and build a reputation for textile products manufactured by association members.

* Objective stated in Abt Associates Inc.'s 2011 Evaluation Report.

As regards its specific objectives, the PRA project continues to focus on poverty alleviation. It declares its objective is to sustainably increase its beneficiaries' revenues. It also emphasizes the need to improve the business climate and underscores the objective of obtaining financial leverage from companies and public and civil society organizations.

Articulando MyPerú underscores its goal to strengthen horizontal linkages among companies as well as vertical linkages between large companies and smaller ones. In addition, this project emphasizes public-private cooperation to advocate specific public policies.

In this last respect, although the APOMIPE project does not set forth any specific objectives, a review of its intervention methodology reveals a very strong advocacy component in its areas of operation.

Both the APOMIPE and Gamarra and Cuzco Business Network Development Projects emphasize building business networks rather than strengthening value chains or clusters. Business networks require working together with a limited number of producers and a strong emphasis on building trust among network members. The fact that both projects share this approach is no coincidence. These two projects are sponsored by Swiss Cooperation that has already enforced the business network concept in several of its projects.

Projects in the Dominican Republic only mention central objectives, not specific ones. All the projects use the cluster terminology used in the country strategy, although in practice they may be promoting value chains or even business networks.

Dini, Ferraro and Gasaly (2007) typify the strategies put into practice by projects that b build business networks, and those that develop clusters and/or territory-based productive systems. Business network projects include relatively simple coordination schemes, which generally include setting up a business organization. On the other hand, cluster-promotion projects include one or several meeting points. As regards leadership, business networks generally are led by the beneficiary entrepreneurs, while clusters are typically led by sponsoring organizations. Finally, the motivation behind business networks is the commercial benefit accruing to its members, while in clusters the driving engine is the creation of public goods.

For instance, the Business Innovation Project has as its objective to provide public goods to the clusters with which it would cooperate. However, soon after the execution stage started, it was clear that activities were needed to strengthen the clusters' productive units.

ASOMIMETRO project is a clear example of support to a business network created by a limited number (17) of productive units that proposes activities for the benefit of its members, as for instance, joint input purchases and using shared production systems. Simultaneously, it proposed to procure certain public goods, such as signing agreements with renowned local design schools or preparing business model guidelines that may be easily replicated.

c) Linkage strategies

The project's linkage strategies vary depending on whether horizontal (among companies) or vertical (between a large company and several small ones) linkage is promoted. In addition, there is a difference whether the objective is to link up producers to dynamic external and/or internal markets, compared to regional and local markets with a potential for growth.

The PRA project clearly seeks to promote vertical articulation with large buyers. The project and its implementing unit (Chemonics) prioritize a demand-side approach and identifying buyers for small scale producers' products. As mentioned by Riordan (2007) "demand has a name and an address". This author underscores the importance of getting purchase orders. Buyers are responsible for creating linkages along the value chain and oftentimes must provide working capital, as well as technical assistance and ongoing walkthrough for buyers.

¡Error! No se encuentra el origen de la referencia. shows the distribution of net sales accomplished through the PRA project from 2000 to 2007. It shows the greatest amount of sales was made to medium enterprises, followed by small and large ones. More interesting still is that average sales to medium companies were slightly larger than those to big companies. This reflects the potential of medium companies to create business linkages with small scale producers. In addition, other project data reveals most sales were made to transformation companies. This also reveals that business linkages might probably contribute to adding value (Weidemann Associates Inc. 2008).

Table 11
PARA Project: net sales by business size

Company size	Number	Net sales (US$)	Average size (US$)
Micro	189	17,178,207	90,890
Small	161	44,570,927	276,838
Medium	96	117,451,492	1,223,453
Large	35	42,821,430	1,223,469

Not classified	83	10,422,553	125,573
Total companies	564	232,444,609	412,136

Source**:** Weidemann Associates Inc. (2008)

APOMIPE is another project that has also adopted a demand-driven approach. It however creates linkages not only through a large-scale buyer that operates in national or international dynamic markets, but also leverages linkages with local or regional buyers. APOMIPE Project has sought to work directly with poor or extremely poor producers, which somehow restricts the possibility of creating linkages with dynamic buyers because of the former's low technical skills and little ability to adopt complex knowledge, their reduced capacity to invest, their lack of access to credit, and other restrictions. The strategy to create linkages with regional and local buyers results in slow transaction growth. However, vulnerability is reduced because of the larger range of clients. This characteristic reduces the risk of client volatility that may eventually end the business relationship.

For instance, in the case of the "guinea pig" value chains, both in Cajamarca and Cuzco, the main buyers are local restaurants, large company catering facilities for workers, wholesalers who sell their products at local fairs, and even municipal governments that buy guinea pigs to encourage breeding as part of their programs to expand productive activities. In Cuzco, flower growers are selling their products directly in regional markets, with efforts underway to directly supply luxury hotels that presently buy flowers abroad.

Nonetheless, in some cases, as in the Cajamarca and La Libertad dairy value chains, producers have linked up with a large milk and dairy products companies. Milk producers in Cuzco have adopted a different strategy and chose not to sell to a large company but rather sell their milk at their own points of sale.

The Project to Develop Business Networks in the Gamarra Cluster shares some similarities with APOMIPE to the extent that, as mentioned above, it has adopted an intervention model similar to that of business networks of the Swiss cooperation agency. It is worthwhile underscoring that an important component of these projects is to build trust among producers, as the foundation for greater horizontal linkages. Thus, the project's governance may not be in the hands of a large buyer that operates as a linking driver. Instead, the network hires a manager to grow the network. The managers' contract is jointly funded by the beneficiaries.

As mentioned in section 3.1, the project to establish Business Networks in the Gamarra Cluster faced implementation issues due to the transfer of the direct implementation unit (PROMPYME) to another Executive Branch agency, with direct consequences on the project's outcome. This project seems to have adopted a horizontal linkage approach, without any vertical linkage component. The final evaluation report for the project's first phase mentions some of the planned activities were not carried out, including attending textile fairs and organizing road shows in foreign markets in Venezuela and Bolivia.

Because it is a second tier project, the Articulando MyPerú initiative includes a wide range of linkage strategies. Each subproject is provided with its own logical framework and determines its own strategies. As shown in **¡Error! No se encuentra el**

origen de la referencia., almost all projects include both horizontal and vertical linkage components. The exception is the project to promote company businesses in the Lambayeque tourist circuit, which seeks to strengthen local business capacities. All the other projects always include a vertical linkage component to ensure a market is available to small scale producers. However, in some cases the executing entity itself commits to buy the products , like PROASSA, Industrias Mayo, Consorcio Agroexportador del Perú, Productos del País and Piscifactorías Los Andes, while another NGOs have entered into agreements with certain companies, such as CEDEPAS and Backus, CARITAS and chee semakers and PRISMA and two other committed companies. As regards the other projects, it is not clear whether the client has already been identified.

Table 12
Horizontal and vertical linkages of Articulando MyPerú subprojects

Sub-project	Horizontal linkages	Vertical linkages
CEDEPAS Norte	250 corn growers.	Corn sales to Backus Corporation (brewery).
PROASSA	2500 coffee growers organized in 64 associations.	Linkage with PROASSA, which will collect and sell coffee to OPTCO.
Fundación Wiese	114 micro and small companies in the gastronomy, handicraft and travel services industries, organized in 15 business networks.	
Asociación Benéfica PRISMA	400 *tara* growers grouped in 8 associations.	2 companies committed to sell the associations' *tara.*
Industrias Mayo	75 cocoa producers.	Collection and sales to Industrias Mayo.
REOPA	163 producers organized in 9 associations and 2 agroindustrial units using technified irrigation.	REOPA looks for clients in international markets.
Cáritas del Perú	450 dairy producers.	Milk purchase commitments from 15 cheese makers.
Consorcio Agroexportador del Perú S.A.C.	30 table grape growers organized in 2 associations.	Grape sales to Consorcio Agroexportador del Perú.
Productos del País S.A.	700 *tara* growers organized in 75 associations.	Collection and sales to Productos del País S.A.
Piscifactorías Los Andes	60 small scale producers organized in 30 MSEs.	Trout sales to Piscifactorías Los Andes, Peru's largest trout exporter.

In the Dominican Republic, as a response to a national strategy to create clusters, most projects prioritize creating associations. However, as was mentioned earlier, some projects include business and network promotion components.

USAID's Rural Economic Diversification project somehow resembles PRA project's business linkages strategy in Peru. Rural producers link up with medium-size or large companies to provide access to dynamic markets (Table 9). In fact, from 2008 to 2010, the project increased sales from US$ 59 million to US$ 68 million, while exports climbed from US$ 35 million to US$ 43 million. However, funding for the sub-project is of a different type. In this project, USAID supports producer associations directly, whereas in the PRA project also the buying companies are financed.

The Industrial Innovation Program relies principally on horizontal linkages. As was mentioned already, its first component focused on encouraging company linkages while the second placed an emphasis on training and technical assistance. During our interviews, it was also mentioned that the project finances cluster promotion and dissemination activities, and encourages agreements for capacity building (i.e. with training organizations and others).

ASOMIMETRO is different from the other projects to the extent it is a business more than a development project. This is an association of underwear manufacturers that supply principally local markets. However, through this project they seek to improve the quality of their products so they can target higher-end more demanding markets. The project also proposes to introduce modern technologies that will help them improve their products.

d) Types of beneficiaries

In all cases, both in Peru and the Dominican Republic, beneficiaries are mainly small rural sector producers, in the farming industry, and small scale urban textile and apparel manufacturers.

Buyers of these small producers are secondary beneficiaries as they benefit from a constant stream of supplies and products. In most cases, buyers co-finance the project, as happens with Piscifactorías Los Andes, a trout farm company in Peru. This company's growth is due to the vertical links established with small scale trout farmers. Moreover, these vertical linkage initiatives have been particularly beneficial to this company, which participates in the PRA and Articulando MyPerú Project.

In the Dominican Republic, buyers included in the Rural Economic Diversification project have also contributed to finance these initiatives, typically by sharing in the cost of trainings and technical assistance.

5.2 The role of formalization

a) Formalization objectives included in the projects' logical framework

As mentioned in Section 5.1, paragraph b, the objectives of projects reviewed here generally aim at improving the competitiveness of participating producers. None of the projects includes a beneficiary formalization objective per se in their logical frameworks, excepting PRA, which sets forth a goal related to improving the business climate. Articulando MyPerú does not include any objectives to formalize its beneficiaries.

However, some sub-projects do propose some sort of formalization. Caritas' projects aims at creating linkages between milk and cheese producers in its second component with a view at strengthening and mainstreaming or formalizing rural micro-businesses. Piscifactorías de los Andes's does not include a component or activity specifically focusing on formalization although its verification methods do require submitting sales and marketing records. Finally, the Wiese Foundation's project includes a training component on tax issues for companies.

Some sub-projects deal with product formalization. The linking strategy generally goes together with measures to improve product quality and introduce good manufacturing practices. Five of the projects include this type of formalization and three of them explicitly introduce formalization to the extent they require producers to be certified internationally. Two of the projects involve implicit formalization because the linking company sets certain quality standards but it is the latter which holds the international certification.

None of the projects implemented in the Dominican Republic include an explicit formalization goal.

b) Requesting formalization to joint projects

Some of the projects under review require their beneficiaries to become formal, at least at the level of producer associations. In several of those projects the associations are responsible for or signatories of the agreements entered into with government agencies. In addition, those associations must enter into commercial transactions, in particular with large companies that buy their products. One of the effects of business linkages is that they increase the scale of production and sales of producers through their associations. As transactions become larger, it is no longer possible to keep them informal.

Although in the case of Peruvian projects it was not an explicit requirement that participating associations should be formalized, generally those organizations are already formal to a certain degree, because they are registered with SUNAT, the tax administration, or because they are registered with the public registries.

Also as was mentioned earlier, in the case of Articulando MyPerú, at least one of the subprojects explicitly requires the associations' formalization.

As regards the project to develop business networks in the Gamarra cluster, an Intercooperation official said participating companies from the textile industry were at least partially formalized. Although these companies are registered taxpayers, they do not necessarily meet other formalization requirements.

Something similar happens with projects in the Dominican Republic. However, representatives from the Rural Economic Diversification Program said organizations are required to register, at least with the National Tax Payers Registry (RNC, in Spanish). This is due to the fact that the program only includes the organizations as its beneficiaries but not the buyers or support institutions.

In addition, in the ASOMIMETRO linkage project, participating companies were to some extent already formal, such as RNC, and because the more dynamic markets they target require entities to be properly formalized.

At the level of individual producers, few projects require formalization, in particular among those projects supporting agricultural sector businesses. As mentioned when discussing the conceptual framework, development agencies focus on the ability of informal entities to create economic activity and jobs, rather than becoming formal productive units.

c) Developing operation modalities to foster formality within chains or clusters

In Peru, APOMIPE project has devised a scheme to encourage formal commercial transactions within its framework of operations. Through this arrangement, several companies engage in temporary agreements to carry out various types of joint activities, such as input purchases or product marketing. They are not required to register their agreement with the Public Registries and individual members are independent owners of their assets. This type of contract is regulated by the General Company Act.

For executing this contract, one of the participants must take the role of administrator or operator.

Participants in these arrangements must be registered with the Single Tax Payers Registry and, consequently have a Tax Payer Number or RUC, either under the General Regime or one of the special regimes (i.e. RUS or RER).

Even if the participating micro and small companies may not become formalized, the transactions will be formal and the small scale producers can invoice the products they sell, allowing transactions to grow and attracting more important costumers.

As discussed in the introduction to this paper, this commercial organizational model is not appropriate for associations to join business networks which have profit sharing as one of their goals. Associations are not allowed by law to distribute earnings. It has been proposed instead to encourage production cooperatives as a more appropriate organizational structure.

Several of our interviewees in the Dominican Republic said commercial organizations do not fit into the cluster model, in particular because these clusters directly benefit from business linkage projects. However, the National Competitiveness Council includes a program to improve the business climate which may review this issue.

d) Complementing other formalization projects

As mentioned in Section 5.1., paragraph a), development agencies usually prepare a country strategy before executing their projects. A review of the strategy documents prepared by IDB, USAID and SDCA shows that these agencies operate in various intervention areas.

Table 13
Development agency intervention areas. Peru and the Dominican Republic

Agency	Peru	Dominican Republic
IDB	▪ Strengthening international mainstreaming and competitiveness. ▪ Promoting social development and inclusion. ▪ Deepening the reform of the state and improving public governance.	▪ Public finance ▪ Social protection ▪ Education ▪ Labor intermediation ▪ Electricity ▪ Transportation ▪ Water and sanitation ▪ Agricultural industry ▪ Tourism industry
SDCA	▪ Food security ▪ Institution building ▪ Human development ▪ Sustainable development ▪ Sustainable competitiveness	
USAID	▪ Economic growth ▪ Environment ▪ Health ▪ Democracy ▪ Education ▪ Alternative development ▪ Regional trade program ▪ Regional health program	▪ Poverty aliviation ▪ Democracy and governance ▪ Health and vulnerable populations

¡Error! No se encuentra el origen de la referencia. shows the various intervention areas prioritized by development agencies in both countries. One of the main concerns of these agencies is Peru's non-inclusive growth Peru. Consequently, economic growth or competitiveness projects emphasize pro-poor growth.

Other intervention areas include institution building and reform of the state. Interventions in these areas reveal a concern for "second generation" reforms. These two areas underscore programs to support, among other elements, reforms to improve the business climate. In SDCA's particular case, institution building includes promoting decentralization. This agency promotes or emphasizes business linkage projects in various ways. For instance, it encourages involving municipal governments in local economic promotion, so they will eventually become clients for business networks.

In the Dominican Republic, both IDB and USAID promote reforms to improve the business climate; such initiatives are materializing, for instance, in laws to make it easier to create new companies and in studies to review obstacles to private investment.

In addition, several initiatives are aimed at facilitating new businesses. The Commercial Company Act has been amended to include new business types. In fact, the registry for individual merchants has been established (or its equivalent in Peruvian legislation).

Moreover, the Dominican Internal Revenue Office has designed a form for informal suppliers which allows at least their partial formalization and allows third party companies that buy their products to document their transactions.

Finally, a project financed by the government of Taiwan and implemented by the Compite Dominican Foundation seeks to support formalization and legal registration of at least 40 companies. The project targets non-subsistence companies.

5.3 Program results

a) Business formalization

Very limited evidence was found on formalization of individual beneficiaries. There are some specific experiences of agricultural producers who are marketing their products and had to become formal.

The evaluation report for the first phase of the PRA project mentions that some of its economic development centers have supported formalization of groups of producers. It also mentions greater coordination will be attempted with the Competitive MSE Program (MYPE Competitiva, in Spanish), a regional USAID funded program operating in Bolivia, Colombia, Ecuador and Peru (Weidemann Associates Inc. 2008).

The APOMIPE project has partly succeeded in promoting formalization. Business networks have added momentum to local economies. The impact of the guinea pig farmer's network project has been significant given the size of the local economy. Moreover, there are some signs of emerging specialization along the chain, both on the side of producers who now sell higher value added products, for instance, guinea pig meats packers, breeder-grade guinea pigs, etc., as well as feed suppliers and farm credit organizations. Access to credit is an initial step towards formalization because a credit application requires registration with the tax administration.

No clear evidence was found in the Dominican Republic concerning formalization of individual producers included in agricultural projects. Instead, the ASOMIMETRO textile enterprise shows participating companies are formalizing gradually, apparently driven by growth prospects resulting from targeting more dynamic markets, and their linkages with companies in the free zones.

It is also worthwhile underscoring that the linkage projects do not explicitly seek producer formalization, and consequently relevant data is not collected. As a result, such information can only be deduced indirectly from project executing agents and, eventually, when it is included in evaluation reports, where it generally appears as an externality.

b) Chain governance

As mentioned by Zinnes (2009), one aspect of formalization is related to product quality. Most of the projects reviewed here are concerned with quality improvements, in particular those that target international markets. Also, as mentioned earlier, several of these projects require producers to get international certifications as a requisite to penetrate various niche markets, such as organic products markets. In some of these cases, collector and exporter organizations are certified and transfer their good practices to producers. This might be considered as an implicit formalization process.

Also in both countries, it has been noticed that once producers are certified, they draw the attention of local costumers. This happens with supermarkets that set their own quality standards and are willing to establish stable commercial relationships with producers who can assure the quality of products they require.

c) Access to credit

Greater access to markets gained through business linkage programs and resulting in larger orders generally persuades small scale producers about the need to invest in expanding production capacity. Dini, Ferraro and Gasaly (2007) mention that some initiatives implemented by linkage programs include facilitating access to national development programs, municipal funds and other sources of international cooperation.

The projects reviewed here do not include access to credit in their objectives. However, greater economic activity and government lobbying by APOPIME in Cajamarca led a credit cooperative to design a financial product to provide loans to producers in the guinea pig value chain[18]. Although the financial tool was designed for productive chains in general, the cooperative's representative mentioned almost 80% of their loans target guinea pig breeders.

Likewise, as a result of one of Articulando MyPerú's sub-projects the trout farmers linked to Piscifactorías Los Andes had to become formal so they could have access to loans. In the case of the trout value chain, working capital requirements are significantly higher because of purchases of feed and other expenses incurred to expand production.

In the Dominican Republic no evidence was found of efforts to open access to credit.

6 Conclusions

Our findings confirmed the difficulty of identifying robust evidence on the outcomes of programs and projects to foster business linkages and their impact on the beneficiaries' organization, both at micro and individual level. However, a major impact was found regarding the formalization of intermediate size organizations representing those projects' beneficiaries.

All the programs and projects under review promoted such organizations. The first reason is that they are a major vehicle to encourage association among beneficiaries, who typically operate individually. The second reason is that efforts to enter markets and increase sales generally require market agents to be somehow legally established. Associations thus become a valid interlocutor to enter

[18] Although this financial tool was designed with value chains in mind, the cooperative's representative said almost 80% of loans target guinea pig breeders.

commercial transactions with buyers. In addition, in some programs the producers' organizations are the direct beneficiaries and to benefit from the program they must be registered also as tax payers or incorporated and registered in the Public Registries.

As regards formalization of individual enterprises or companies, no direct information was obtained in this regard from the projects or programs under review. They do not gather this type of information because they rather aim at accomplishing the main objectives of increasing a network, chain or cluster's competitiveness. However, project and program representatives mention some successful cases among enterprises reaching the size required to afford formalization. Moreover, the first step toward formalization, which is obtaining a tax registration is taken only because of the need to register commercial transactions. No information is available about other types of formalization, such as labor formalization.

In the textile industry projects reviewed here, beneficiaries had already formalized to a certain extent before joining the project, or they registered formally to be able to join the project. This fact poses the question whether *de facto* formalization results from companies' joining manufacturing industry projects that need a larger capital endowment and also larger production. This does not exclude beneficiaries from joining some other type of representative organization or that will provide a platform for larger associations.

As regards other types of formalization, the reviewed programs and projects show product formalization is a natural consequence of growth. This is in turn related to the importance of technical governance; i.e. the need to meet quality and technical standards, obtaining certification, and satisfying other requirements of business linkage processes. If these standards are not met, the networks or chains cannot supply standard products and meet the market's quality requirements. However, there are at least two ways to enforce governance models. In some projects, executing units or linkage agents provide the necessary training and technical assistance for producers to adhere to such parameters as part of their production processes, without the producer itself obtaining certification individually. Instead, the linkage agent obtains certification. In other projects, producers are assisted to obtain their individual certification. Which path companies follow directly depends on the level of production and sales, as certifications are expensive to obtain. Apparently, when producers' organizations bring together a large number of producers, as for instance through the horizontal linkages of the coffee or cocoa industries, the organization itself can pay the cost of certification.

Whether associations are the appropriate type of commercial arrangement for producer organizations is not clear. Apparently some issues might arise because generally associations are non-profit organizations and therefore cannot distribute profits among their associates, erecting a barrier for producer organizations that wish to enjoy the benefits of their economic activity. Additionally, associations are mostly representative organizations and do not allow differentiating among producers, which may lead to some cases of free riding. Also as regards commercial arrangements to facilitate formalization, in both countries efforts were made to streamline paperwork for opening businesses and establish new types of companies requiring less stringent conditions than other more conventional business organizations, such as simple corporations.

In addition, commercial regulations in both countries include ways of formalizing commercial transactions without setting up a company. In Peru, the consortia set up without separate bookkeeping promoted by the APOMIPE project are an example. In the Dominican Republic, a new form available to informal suppliers allows formalizing buyers’ purchases but does not require establishing a company.

Finally, it is crucial to gather information systematically to gain deeper knowledge on business linkages and how this relates to formalization. The projects and programs funded by development agencies do not provide a very sound body of evidence because of the weakness of their monitoring and evaluation systems. Many of these projects are implemented without pre-existing baselines which hampers measuring their impact on beneficiaries. Without this type of information it is very difficult to prove the hypothesis that business linkages will increase the likelihood of business formalization.

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Annex. List of interviews

Name Nombre	Institution Institución	Country País
Yaneris Collado	Abt Associates Inc.	Republica Dominicana
Jesús de los Santos	Abt Associates Inc.	Republica Dominicana
Juan Aracena	Abt Associates Inc.	Republica Dominicana
Ernesto Vilalta	Asociación de Empresas Industriales de Herrera	Republica Dominicana
Wilky Jiménez	Asociación de Industrias de la República Dominicana	Republica Dominicana
Joaquín Domínguez	Banco Interamericano de Desarrollo	Republica Dominicana
Alvaro García Negor	Banco Interamericano de Desarrollo	Republica Dominicana
Qurilio Vilorio	Centro de Exportación e Inversión de la República Dominicana	Republica Dominicana
Laura del Castillo	Consejo Nacional de Competitividad	Republica Dominicana
Marina Ortíz	Fondomicro	Republica Dominicana
Rolando Gómez	Grupo de Consultoría Pareto	Republica Dominicana
Maritza García	Ministerio de Economía, Planificación y Desarrollo	Republica Dominicana
Mario Casanova	CEDEPAS Norte	Perú
Alejandro Contreras	Centro Bartolomé de las Casas	Perú
Edgar Chuquitapa	Centro de Desarrollo Económico - Huancavelica (Proyecto PRA)	Perú
Ana Ibarra	Centro de Desarrollo Económico - Puno (Proyecto PRA)	Perú
Luis Chang	Chemonics	Perú
José Ventura	COSUDE	Perú
Carola Amézaga	Intercooperation	Perú
Fernando Villarán	SASE	Perú